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Significance of Improvement in Foreign Exchange Reserves for United States Agricultural Trade

SUMMARY

The last year has, on the whole, seen a substantial further improvement in the financial position of friendly foreign countries. As of December 31, 1953, free world gold and dollar holdings amounted to over \$22 billion, or roughly \$7.5 billion above their level in June 1949 and \$2 billion above December 1952. This increase has been the result of various factors, including continued U. S. foreign aid, larger U. S. imports and, more recently, a decline in U. S. exports (excluding military shipments). The decline was particularly sharp in U. S. agricultural exports. Some signs of a possible reversal of this trend became apparent, however, towards the end of the year.

United States agricultural exports have benefited from a relaxation of import controls for some commodities in some countries. Thus the United Kingdom has freed grains, certain fats and oils and a few fruit items from controls, and plans to free cotton imports. The Netherlands recently decontrolled dollar imports of tobacco, cotton and corn.

Despite the improvement in foreign balances of payments, extensive controls have been maintained in many countries and in some cases (e. g. Germany in the case of grains) are being used to bring about further shifts away from dollar sources of supply. Among the reasons for this has been the curtailment of U. S. economic aid and the interest of financially stronger countries of the non-dollar area in securing a better balancing of their trade with weaker members of that area.

The impact of the controls which continue to be imposed against U. S. agricultural products is also being felt much more than in earlier years because of the greater availability and lower prices of supplies from other sources.

Significance of the Improvement in Foreign Exchange Reserves for United States Agricultural Exports

Recent Developments

The improvement in foreign exchange reserves between June 1949 and September 1953 has been greatest for the United Kingdom (representing the sterling area) Canada, Germany, the Netherlands and Japan. (Table 1)

A $5.9 billion net improvement in the trading position of foreign countries with the United States between 1948-49 and 1952-53 more than offset the reduction in United States economic aid during the corresponding period from $5.8 billion to $2.2 billion. (Table 2)

The main factor in that improvement was an increase of United States imports of goods and services by $6.2 billion (61 percent) between the fiscal years 1948/49 and 1952/53. The increase in imports was due in part to commercial purchases and in part to larger expenditures by the United States Government for installations and personnel abroad, offshore procurement (including items used in military aid to foreign countries) and stockpiling. During 1952-53, these expenditures by the Government exceeded $2.5 billion.

More recently, however, merchandise imports have been declining. During the third quarter of 1953 they dropped by about $175 billion; a further drop may come when high-priced deliveries under long-term contracts (tin and copper) are completed.

United States exports of goods and services, excluding military aid, dropped from $19.5 billion in 1951-52 to $16.9 billion in 1952-53, a decline of 13 percent. The sharpest decline occurred in agricultural exports, which dropped from $4.0 billion to $2.8 billion, or 30 percent. Nonagricultural merchandise exports dropped from $11.0 billion to $10.4 billion, or 5 percent.

Exports under military aid programs expanded to $3.1 billion in 1952-53. As foreign rearmament goals are achieved, these exports will decline.

Impact on United States Agricultural Trade

The improvement in foreign exchange reserves during the 12-months ending June 1953 was, in part, the result of the sharp decline in United States agricultural exports. This decline reflected both the lessening of inflationary pressures in many countries, which reduced the demand for imports, and increased supplies from other sources at lower prices.

The sustained improvement in foreign exchange reserves since June 1953 has spurred the removal or relaxation of controls against U.S. farm products by some countries.

The United Kingdom, as of January 1954, has decontrolled imports of grains, some oils and oilseeds (with soybeans and soybean oil of particular interest to the United States), dried fruits, canned grapefruit, pineapples and mandarin oranges. A futures market in grains again became operative mainly on corn, barley and other coarse grains. Egg imports will be returned to private import in April 1954 and the futures market for cotton is scheduled to reopen within a few months.

The Netherlands recently decontrolled dollar imports of tobacco, cotton and corn, increased the import quotas for wheat, soybeans and soybean oil and flaxseed and linseed oil, and promised liberal dollar allocations for the fruits, nuts, tallow and honey formerly imported only with bonus dollars.

Western Germany has also made liberal dollar allocations for tobacco and certain horticultural products and is reported to be planning a liberal dollar import policy.

The OEEC Ministerial Council, meeting in April 1954, will consider a plan of action whereby all member countries will grant more liberal treatment for selected dollar imports.

Some countries with improved balances of payments are continuing extensive import controls in order to protect domestic producers and channel their imports to soft-currency countries with whom they have an export surplus. For them this is a means of maintaining their markets for industrial products in these countries. This policy has affected our grain exports to Germany, for instance.

Table 1. Foreign Gold and Dollar Assets
Sept. 1953 and Changes Since Sept. 1952
and Sept. 1949

(Million dollars)

	Assets as of Sept. 1953	Change since Sept. 1952	Change since Sept. 1949
Total foreign countries 1/	21,935	+2,378	+7,278
Canada	2,290	- 147	+1,003
Sterling area	4,067	+ 890	+1,583
Belgium, Luxembourg and Congo	1,079	+ 50	+ 144
Western Germany	1,053	+ 449	+ 905
Netherlands	954	+ 283	+ 626
Switzerland	2,122	+ 104	+ 123
France and dependencies	1,012	- 24	+ 278
Italy	711	+ 73	+ 174
Denmark, Norway and Sweden	591	+ 75	+ 283
Japan	1,063	+ 163	+ 692
Philippines	318	- 11	- 31
Thailand	304	+ 33	+ 205
Indonesia	198	- 170	- 7
Latin American Republics	3,704	+ 368	+ 842
Other countries	2,469	+ 242	+ 458

1/ Excludes gold and dollar holdings of international institutions and gold holdings of the Soviet Union. Dollar assets comprise short-term private and government holdings as reported by U. S. banking institutions.

SOURCE: The Department of the Treasury and the Board of Governors of the Federal Reserve System.

Table 2. United States Balance of Payments for the Fiscal Years 1948-49, 1951-52, 1952-53

(Billion dollars)

	Fiscal year 1948-49	Fiscal year 1951-52	Fiscal year 1952-53
Balance on goods and services	+6.8	+6.3	+4.8
Military aid	- .4	-1.8	-4.2
Balance on nonmilitary trade in goods and services	+6.5	+4.5	+0.6
Offsetting factors			
U. S. economic aid (loand and grants)	-5.8	-3.0	-2.2
U. S. gold purchases (-) and sales (+)	- .9	-1.7	+1.0
Other, including private capital errors and omissions	+ .2	+ .2	+ .6

United States Merchandise Trade Balance

	Fiscal year 1948-49	Fiscal year 1951-52	Fiscal year 1952-53
Total exports	+13.3	+16.3	+16.3
Less military aid shipments	- .2	- 1.3	- 3.1
Nonmilitary exports	+13.1	+15.0	+13.2
Agricultural exports	- 3.8	- 4.0	- 2.8
Nonagricultural exports	+ 9.3	+11.0	+10.4
Total imports	- 7.6	-11.1	-11.8
Balance nonmilitary exports and total imports	+ 5.5	+ 3.9	+ 1.4

SOURCE: Department of Commerce, Office of Business Economics, Survey of Current Business; and Foreign Agricultural Service.